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Changing Nature: Globalization and Economic Reforms in Brazil

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ABSTRACT

Globalization is affecting our lives in ways that we never expected before. Greater interdependence, some scholars argue, weakens the ability of nation-states to retain their authority over individuals and corporations. However, nation-states are highly adaptable and they have the power to maintain their primacy.

Governments have the ability to choose which model of development their economies should pursue. Thus, based on the choice of economic model, nation-states shape their economies and the way business operates within it. In other words, governments will essentially steer their economies in a certain direction, even though they cannot determine the exact path that the nation's economy will follow. In this thesis, I study how the Brazilian government is coping with the emerging challenges imposed by globalization through a neoliberal reform program while maintaining the state's authority.

CHANGING NATURE:
THE RELATIONSHIP BETWEEN GLOBALIZATION AND ECONOMIC REFORMS IN BRAZIL

By Lucas Gimenes Loureiro

As trade across borders increases, communication costs plummet, and governments around the world become more interconnected, many pundits do not hesitate to declare that the world is entering a new phase. However, contrary to what we may have initially thought, the new phase that they foresee will hold darker prospects for the future. Instead of leading to prosperity and peace, some argue that globalization has weakened the nation-state.[1] In turn, weaker nation-states will not be able to promote order and protect citizens and may even collapse. Hobbes' "state of nature" may dominate the international and domestic security sphere as well as the economic field. Feeble states will not be able to maintain their monopoly over violence; private individuals and organizations may take over this function from the state. This may lead to a lawless situation. Moreover, nation-states, as

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[1] Reich, Robert. The Work of Nations: Preparing Ourselves for the 21st Century. New York, NY: First Vintage Books, 1992.

they are outweighed by corporations, will lose their ability to regulate the market. Given this scenario, some pundits expect the world to be incorporated by big businesses.[2] Such a future seems chaotic -almost apocalyptic -as many proclaim the coming of anarchy, the return of the Middle Ages, the clash of civilization, "earthquakelike events [...] threatening the stability of all great powers," and even the end of history.[3]

Will reality look this grim for nation-states, including Brazil? The environment in which nation-states operate is changing rapidly. Non-government actors increasingly compete for what once was the exclusive power of the states. However, the collapse of nation-states will depend on the actions of the states themselves, as they have the ability to shape their economies as to strengthen the state and to maintain sovereignty over their affairs as international interconnectedness expands. Because states can effectively manage the conditions listed above to their benefit, we can expect that nation-states will maintain their leadership role in both domestic and international affairs in the future to come. Although the leadership in core areas will be maintained, states will need to

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[2] According to the World Bank, the combined sales revenues of the world's 200 largest corporations already surpass the combined GDP of all nations with the exception of the ten largest economies. Moreover, the sales revenues of such corporations are equivalent to 27.5% of the world's total economic output.

[3] See Kaplan (1994), Rapley (2006), Huntington (1993), Gaddis (1999), and Fukuyama (1989).

get used to sharing their powers with other actors in peripheral areas.

In the initial sections of my thesis, I will define the types of powers nation-states can attain and present a discussion on the nature of those powers. I will enumerate and define the different types of power that are commonly employed by the states. In addition, I will demonstrate that the ultimate source of power, "hard power", rests with the state. Although, private citizens and organization have gained "soft power", the state is the only institution in our society that can utilize both hard and soft power to achieve its objectives. States have the necessary type of power to maintain their authority over individuals and corporations. Moreover, I will argue that despite the growing interconnectedness and interdependence, globalization still lacks the necessary strength to affect negatively the ability of the state to exercise its powers. Furthermore, I will demonstrate that the state has the ability to shape the economy by choosing from different models of development. Thus, the power of business can be quickly curtailed if the state deems it to be one of its responsibilities. The case of neoliberal economic reforms in Brazil will be used to illustrate this point.

Until early 1990s, Brazil lagged behind the other Latin American countries in terms of economic liberalization. Chile, under a strict military regime, introduced economic reforms as early as the 1970s; furthermore, these policy reforms were expanded under the auspices of a democratic government. Argentina, Mexico and many other countries in the region followed Chile's example during the 1980s and the beginning of the 1990s, though reforms in those countries were not as broad or successful as in Chile.[4] Notwithstanding a late start, once it became clear that Brazilian society could no longer bear the cost of an unstable economy, elites in Brazil, especially politicians, the bureaucracy and businesspersons, realized the need to introduce neoliberal market reforms. Since then, changes that promoted macroeconomic stabilization were swift. Unfortunately, the process of furthering reforms has faced obstacles and has slowed down after the inflationary crisis was contained and the economy stabilized.

Brazil's economy under military rule was marked by a strong *dirigisme*; from 1964 to 1985, the Brazilian government attempted to manage the economy through central planning, increased regulations, and arbitrary controls such as prices and wages freeze. Furthermore, the military, with its focus on attaining economic self-sufficiency, began to utilize Import Substitution Industrialization (ISI) programs as one of its primary economic

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[4] Teichman, Judith A. *The Politics of Freeing Markets in Latin America: Chile, Argentina and Mexico*. Chapel Hill, NC: The University of North Carolina Press, 2001.

policy choices.[5] The goal of ISI policies was to shell Brazilian industries from international competition by raisin trade barriers. Soon after the military stepped down from the position of power and Brazil returned to democracy, liberal economic reforms became a top priority in the political agenda. However, the first attempts to reform failed. Heterodox approaches, congressional opposition and political instability prevented the successes of these pioneering plans. In 1993 and 1994, as society could no longer bear the weight of hyperinflation and sluggish economic growth, Fernando Henrique Cardoso, then Finance Minister under President Itamar Franco, devised and implemented the *Plano Real*.[6] Following the successful stabilization of the economy, Cardoso, who was elected President of Brazil for two consecutive terms (1995-1998 and 1999-2002), achieved some mixed results in the implementation deeper structural reforms. Doubt about the future of economic reforms in Brazil grew as Cardoso's presidential terms ended and voters favored the opposition candidate. Nevertheless, Luiz Inácio Lula da Silva, despite his criticism of the economic policies of

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[5] Font, Mauricio A. *Transforming Brazil: A Reform Era in Perspective*. Oxford, U.K.: Rowman & Littlefield Publishers, 2003.

[6] The Plano Real was an economic package aimed at stabilizing the Brazilian economy and combating overwhelming inflation, which according to the Instituto Brasileiro de Geografía e Estatística (IBGE) averaged 764% per year during the beginning of the 1990s. The majority of the measures introduced by the Plano Real followed the policy prescriptions of the Washington Consensus, such as monetary policy restrain, fiscal discipline, privatization and deregulation.

the previous government, quickly set stabilization, fiscal adjustment, and tax and pension systems reforms as priorities of his administration.

While discussing economic reforms in Brazil, I will focus on the period from the return to civilian rule and the tenure of José Sarney toward the end of Fernando Henrique Cardoso's second term in the Presidency. This section of the thesis will include an overview of the Brazilian economic history starting in 1929 until 1985. Additionally, this review will be followed by an assessment of the initial attempts to liberalize the economy that took place during 1985 and early 1990s. A minimum knowledge of Brazilian economic history will prove to be necessary in order to understand the conditions that led to the reform push of the early 1990s. Such conditions, including the elite's dissatisfaction with the State and with the previous nationalist model of development, the economic crisis that resulted from successive fiscal and trade deficits, and the oil shocks or 1973 and 1979, generated enough momentum for the endorsement of liberalizing policies during the initial years of the democratic regime.

Moreover, the author will analyze the implementation of the Real Plan, which was very successful in bringing inflation under control and stabilizing the economy. Furthermore, the different phases of the Real Plan, starting with economic stabilization and proceeding through the adjustment process of the Federal Government public finances, including the maintenance of a primary budgetary surplus, will be scrutinized. To evaluate the success and shortcomings of neoliberal economic reforms in Brazil, the author will discuss the conditions conducive to reforms. To conclude this work, the political sustainability and the future of economic reforms in Brazil will be discussed. Can we expect the already implemented reforms to stay or will politicians overturn most of the liberal policies as has happen in Venezuela?[7] Will the push towards liberalization continue in the coming years or is there is no more political capital left for this trend to continue?

The Locus of Power

Thus far, we have explored what nation-states can do to maintain their authority both abroad as well as domestically. However, we still need to explore how states can achieve their goals. What are the sources of state's power? Individuals and organizations, including states, need the ability to obtain favorable outcomes as well as material resources that can be used in pursuing their goals. Keohane and Nye divide this ability into behavioral power (skills) and resource power

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[7] Since the election of Hugo Chavez in 1998, Venezuela has experienced a reverse in course towards a state-led development model.

(resources) respectively.[8] Furthermore, they subdivide behavioral power into hard and soft power. Hard power, as defined by Keohane and Nye, is the ability to persuade others to do what you would like them to do. States can coerce other parties by using physical force or the threat of or they can offer incentives in order to achieve their objectives. Conversely, soft power is the ability to convince others that your goals are the same as what the other parties want; it is based on persuasion. Nation-states and private parties need to use behavioral power to achieve their goals; however, the source of power varies depending on who the actor is.

The growing power of corporations and civil society does not necessarily threaten the authority of the nation-state, because the origin of state's power is different from the origin of corporations' or civil society's power. In the Western political tradition, the state has the monopoly over the use of force. Because it represents the society as a whole, the state is the only institution that can use the threat of violence (coercion) or even violence in a legitimate manner to convince others to follow similar goals to its own. Furthermore, besides the utilization of hard power, the state can also apply soft power to its pursuit of the public interest. Non-state actors

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[8] Keohane, Robert and Nye, Joseph. "Power and Interdependence in the Information Age: The Resilience of States," Foreign Affairs, Vol. 77, no.5 (September/October 1998).

cannot make legitimate use of hard power. Corporations, civil societies and individuals are restricted to use soft power. Despite being limited to the use of only one type of power - soft power - corporations have seen their ability to influence others grow exponentially.

Vivien Schmidt argues that privatization and deregulation lead to decreasing controls over capital.[9] The deregulating process took place because of the increasing ability of corporations to convince others that deregulation is beneficial for the whole system. Nonetheless, the state still can use its hard power to force corporations that operate, within their borders, to do so in manners that the state deems necessary and beneficial for the public good. The state can also persuade society that a specific approach to the economy, namely one in which corporations have too much freedom, is not conducive to the public good. Therefore, by using its soft power, the government can influence and convince society that an approach that enables government participation in detriment of corporation involvement in the economy is needed.

Interconnectedness vs. Interdependence

In recent years, the term "globalization" or the practice

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[9] Schmidt, Vivien A. "The New World Order, Incorporated: The Rise of Business and the Decline of the Nation State," Daedalus, Vol. 124, no. 2 (Spring 1995).

of transforming the word "global" into a prefix to a variety of other words (i.e. global finance, global security, global markets, etc.) has been used and abused by many, especially journalists, business people and politicians. Many of those "globaphiles" see humanity entering in a unique, new era; however, globalization and interdependence have a smaller impact in world politics than what the majority of its supporters have thought. People overstate the impact of globalization because their evaluation is most often based on the increasing frequency of contacts and interactions across national boundaries. Evidence supporting greater interconnectedness is readily available. Alex Inkeles stated that the world's interconnectedness is increasing at unprecedented speeds; as he wrote, "recent decades reveal a general tendency for many forms of human interconnectedness across national boundaries to be doubling every ten years".[10] However, it is important to notice that interconnectedness, as Keohane and Nye put, "is not the same as interdependence".[11] Sure, the world is becoming increasingly interconnected, but is it becoming truly "global"[12]?

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[10] Inkeles, Alex. "The Emerging Social Structure of the World." World Politics, 27 (July 1975).

[11] Keohane, Robert and Nye, Joseph. *Power and Interdependence*. New York, N.Y.: Longman, 2001.

[12] In this context, global means that states are becoming mutually dependent. Actions taken by one state not only influence others countries but also have to be approved by all interdependent nations. Moreover, the consequences affecting one state will affect the others.

The concepts of globalization and interdependence as they are broadly applied to any interaction across border do not elucidate the state of affairs of contemporary world politics. In fact, these terms offer us, at best, a superficial view about the impact of international interconnectedness in the twenty-first century. The current usage is misleading for several reasons. First, during the twentieth century, the world went through periods of globalization and fragmentation. Second, the idea that we are living in a time as never before tends to twist reality. Globalization is a process in constant evolution; it draws from previous societal developments. Moreover, the idea of globalization and interdependence is used by many as a mere rhetorical device. Lastly, states have the possibility to choose the form and intensity they participate in "global relations." Thus, globalization does not reduce states' sovereignty, but it influences how they behave in the international and, to a lesser degree, in the domestic arena.

Some "globalists" think that the process of globalization will only intensify its influence as time passes. Nevertheless, there are other forces in international politics that tend to balance the powers of globalization. Fragmentation is one of those forces. Moreover, the relationship between those two processes is more complex than just simple opposition. As Ian Clark stated, "globalization and fragmentation are themselves too closely interrelated" as there is an ongoing interaction between those two processes.[13] In *Globalization and Fragmentation*, Clark gave several examples where circumstances, which seemed to foster fragmentation but resulted in the promotion of globalization and vice versa. Furthermore, a specific period of history may also allow those two forces two operate. For example, the inter-war period (1919-1938) experienced two distinct phases in which each of those forces were distinctly predominant. Globalization of trade faces the growing influence of regional trading blocks; countries may engage in regionalism in an attempt to shelter themselves from globalization.

There is no doubt that the process of globalization has accelerated in the last decades. However, it is following a continuum of previous developments. Even though some people have argued that we are entering a period of deep changes in our means of production, governance, and culture, those changes have not undermined the core assumptions of those structures.[14] Instead of weakening capitalism and transforming us into a post-capitalist society, globalization reinforces the basic assumption of this system - free accumulation of profits even

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[13] Clark, Ian. *Globalization and Fragmentation: International Relations in the Twentieth Century*. Oxford: Oxford University Press, 1997.

[14] Scholte, Jan. *Globalization: A Critical Introduction*. London: Palgrave, 2000.

when this occurs across borders. The production mode of western society is still based on the same liberal principles of free initiative and accumulation of capital. Cheaper and easier ways to communicate across borders facilitate the ability to control transnational corporations and to deliver products to consumers around the world, but the objectives of capitalists of today's world remain the same as those of one hundred years ago. Globalization may also enable the modernization of society, but this progress is grounded into previous development. In this sense, it relates more to an evolutionary process with its sense of continuous changes rather than a revolution with rapid and sometimes violent changes.

Trade, capital movement and immigration have not increased dramatically in the last century. As Ngaire Woods demonstrated, levels of international trade as a proportion of GDP were very similar in 1913 as in 1993.[15] This led many to question what is new about the globalization process in the twentieth century since the level of interaction among countries has been similar for almost eight decades. Some scholars, such as Keohane and Nye, have argued many people have used the concept of globalization as a rhetorical tool in order to advance their

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[15] Woods, Ngaire (Ed.). *The Political Economy of Globalization*. London: Palgrave. 2000.

private interests.[16] Many examples of globalization as a rhetorical device can be found in the behavior of Brazilian politicians. From the Military dictatorship to the current Lula administration, politicians have manipulated the notion of interdependence in order to achieve their policy goals. For example, the military junta asserted that increased trade liberalization and interconnectedness would threaten Brazilian sovereignty while Lula points the "negative aspects of globalization" to justify he social programs put forward by his administration, such as Fome Zero (Zero Hunger).[17]

Certain political scientists have stated that globalization may lead to the reduction of states' sovereignty. In their view the growth of cross-border relations puts in check the ability of the state to regulate its citizens. However, as Scholte has argued the states control their participation in global relations.[18] Nation-states, he asserts, may choose to disentangle themselves from the web of international interactions in which they are participating. Moreover, they are still the primary regulatory force of economic activity. In addition, Woods put forward that strong states might use the

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[16] Keohane, Robert and Nye, Joseph. *Power and Interdependence*. New York, N.Y.: Longman, 2001.

[17] Ministério da Fazenda. *Lula Prega Nova Globalização*. Online, August 15, 2007. < http://www.serpro.gov.br>

[18] Scholte, Jan. *Globalization: A Critical Introduction*. London: Palgrave, 2000.

process of globalization to force other states to accept their values. In her view, globalization is not weakening the ability of strong states to govern and to regulate their citizens' activities.[19] However, a weak state, through the globalization process, may feel the pressure to conform to the values of stronger states.

Many political scientists, including Scholte, do not believe that the effects of globalization shape into one clear, distinct view.[20] For example, in the case of culture, globalization can promote both homogenization as well as tribalism. Hollywood can promote assimilation of Western values through its movies. Nonetheless, the dissemination of these same values through this medium can alienate other cultures which would lead to a complete rejection of the western culture. In certain cases, cultural values are so incompatible that a clash of civilizations is unavoidable.[21] Thus, their effects do not follow one single direction clearly. Even though the number and the intensity of cross border interactions may increase in the future it does not mean that it will change the nature of world politics and the society in which we live. The trend towards

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[19] Woods, Ngaire (Ed.). *The Political Economy of Globalization*. London: Palgrave. 2000.

[20] Scholte, Jan. *Globalization: A Critical Introduction.* London: Palgrave, 2000.

[21] Huntington, Samuel. "The Clash of Civilizations?" Foreign Affairs, (Summer 1993).

globalization can be reversed, however unlikely this may be. Although the evidence about the growing interconnectedness is beyond challenge, the idea about the globalization of world politics still is inconclusive. Meanwhile, the power to decide whether, when and how to become interdependent still rests with the state.

Approaches to Political Economy

Since the end of World War II, the world has seen a wave of liberalization. In its early phase, several international organizations and treaties such as the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) and its predecessor the General Agreement on Tariff and Trade (GATT) were created or ratified. These organizations were focused on the promotion of liberal values such as free trade and *laissez-faire*. Following this initial effort, many nations-states undertook major market-oriented political and economic reforms. Deregulation and privatization have been the major goals of these reforms. Because of liberalization businesses prospered; however, what were the costs of this market liberalization to nation-states?

Vivien Schmidt argues that some nation-states are paying a higher cost then they expected. She believes states are becoming weaker as they lose the ability to regulate capital and social interests are relegated to a position of lesser priority.[22] Though Schmidt correctly points out that business is gaining strength *vis-à-vis* the state, she fails to recognize that the states maintained the exclusive ownership over hard power. Moreover, this situation has developed with the knowledge and consent of the states. Nations adjust the relationship between politics and economics accordingly to the ever changing responsibilities. The state has the ability to choose which model of development to follow based on its responsibilities.

As the state's responsibilities change, the state's approach to the economy will change as well. States' responsibilities change as the "relationship between public ends and private interests" takes different shapes depending on which of these areas is given priority.[23] Below, I will present the most common approaches.

Liberalism as an economic theory is based in the concepts of freedom and equality. For liberals, economics and politics are distinct and completely separate spheres. The economy provides for the satisfactions of private wants whereas the state deals with public needs. Liberals assume that the market

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[22] Schmidt, Vivien A. "The New World Order, Incorporated: The Rise of Business and the Decline of the Nation State," Daedalus, Vol. 124, no. 2 (Spring 1995).

[23] Caporaso, James A. and Levine, David P. *Theories of Political Economy*. Cambridge, UK: Cambridge University Press, 1992.

is able to operate efficiently because individuals will make rational decisions based on the free and accessible information. If left alone, the market will grow and the whole society will benefit. According to classical liberalism, the market has the capacity to be self-regulated. Market actors, following the law of supply and demand, are able to provide for all needs of society at a given price. Furthermore, liberals differentiate between market failure and individual failure. For them, individuals are to blame for any problems in the smooth operation of Smith's invisible hand.[24] Economic liberals are adamant defenders of *laissez-faire*. Because the market, in their view, is capable of self-regulation, there is no need for government intervention.

Marxism was created as a reaction to liberalism. Marxists would argue that the economy is inherently political. "Powerful political forces", argued Marx, "originate in the dynamics of the capitalist economy."[25] Marxism states that capitalism, due to the same characteristics that make its functioning possible, cannot be viable in the long run. According to Marx, there are three inevitable laws that will lead to the failure of capitalism. First, overproduction is imminent and certain in

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[24] Jean-Baptiste Say asserts the impossibility of market failures. In his view, the balance between demand and supply cannot be broken (Say's law).

[25] Caporaso, James A. and Levine, David P. *Theories of Political Economy*. Cambridge, UK: Cambridge University Press, 1992.

the capitalist mode (law of disproportionality). Second, capital accumulates in the hands of few (law of concentration). Third, return on investments will decline as capital is accumulated (falling rate of profits). The effects of those three laws combined with class consciousness will lead to the uprising of the proletariat in the form of a revolution against the capitalist mode of production. The problem with capitalism, Marxists would argue, is that the system is irrational despite the rationality of individuals. Moreover, Lenin viewed the relationship among capitalist states as intrinsically conflictual.[26] To avoid collapsing, strong states will exploit weaker ones.

Neoliberals employ a utilitarian perspective to their view of the market; they apply the concept of utility to the framework of classical liberalism. Indeed, the core principle of neoliberal theory is utility maximization. According to neoliberals, rational individuals seek to maximize the satisfaction or pleasure they receive from consuming a service or product. They assume that individuals will choose alternatives that generate the greatest satisfaction and maximize welfare. Thus, scarcity is based on both the preferences of individuals and the natural availability of

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[26] Gilpin, Robert. *The Political Economy of International Relations*. Princeton, NJ: Princeton University Press, 1987.

resources. Externalities arise because individuals can benefit from collective action. Because the market allows for all individual to maximize their utility through trade, neoliberals judge it to be the most efficient method for individuals to achieve desirable outcomes. However, in certain circumstances, maximum individual utility may only be achieved with the interference of the state. Although the economy and the state should be treated as completely different spheres, in cases of market failure the state should intervene. The state can correct market deficiencies by equating private and social costs (fines and subsidies), creating and enforcing government regulation, and providing a forum for litigation.[27] Within the neoliberal framework, both state and private individuals pursue utility maximization.

The Keynesian approach questions the liberal and neoliberal assumption that markets, when left alone, will make the most of society's productive potential. As Keynes notes, adequate purchasing power may not be achieved if allocation of resources is left entirely to the price mechanism. In his view, the market mechanism is imperfect because of the instability in the production of goods. Like Marx, Keynes argued that the unregulated production goes through a series of "explosions,

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[27] Caporaso, James A. and Levine, David P. *Theories of Political Economy*. Cambridge, UK: Cambridge University Press, 1992.

cataclysms, and crises" that are inherent to the capitalist system.[28] "The market without any supervision may remain in a chronic condition of subnormal activity for a considerable period of time without any marked tendency towards either recovery or towards complete collapse."[29] However, differently than Marx, Keynes never predicted the violent collapse of capitalism. If Keynes' view of the economy is correct, the state is expected to become a proactive actor within the market. Without state participation optimal utilization of resources may never take place in the market system.

In the nationalist approach, "economic activities are subordinate to the goal of state building and the interests of the state."[30] For nationalists, politics is above economics. Nationalists' goals include political autonomy and economic self-sufficiency. Industrialization is extremely important to nationalists, as they perceive it to be the most important way to achieve national goals. Moreover, Nationalists view the international scenario as being intrinsically anarchic and confrontational. Thus, economic interdependence can lead to political vulnerability. It can also be used as a means of

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[28] Tucker, R. *The Marx-Engels Reader*. New York, NY: W. W. Norton, 1978.

[29] Keynes, J. *General Theory of Employment, Interests and Money*. New York, NY: Harcourt, Brace and World, 1936.

[30] Gilpin, Robert. *The Political Economy of International Relations*. Princeton, NJ: Princeton University Press, 1987.

domination. Nationalists are not only concerned with the absolute gains from international cooperation; they pay close attention to relative gains as such cooperation can disproportionably benefit other nations. Because of this emphasis in relative gains, nationalist states often behave as mercantilist nations; in their view, pursuing wealth is also pursuing power.

The power to choose which approach to follow rests exclusively with the state. Furthermore, the chosen ideology will shape the relationship between public and private spheres. For example, by choosing the Keynesian approach the state will see itself as another actor of the market, albeit one of the biggest. State participation is expected in order for the market to achieve maximum productivity. Although the state participates in the economy the individuals are free to pursuit their own goal. Conversely, if the state chooses to follow a nationalist approach, national security becomes the most important objective. Since the functioning of the economy can affect national security, nationalist societies will monitor economic fluctuations closely. The behavior of individuals and corporations must to conform to the goals of national security. In this approach, the private sphere is subservient to the national interest.

With the collapse of the Soviet Union in 1989, political

Scientist Francis Fukuyama declared the "end of history".[31] In Fukuyama's view the fall of the USSR prove the failure of all other economic ideologies; thus, no economic ideology existed to compete with liberalism. However, as we have seen above history is still undefined. Notwithstanding the overwhelming decline of Marxists economic ideologies, still there is an array of competing philosophies from which states can choose.

Short History of the Brazilian Economy:
From 1929 to the End of the Military Dictatorship

The decade of 1930s was a tumultuous period for Brazil. Similar to most economies around the world, Brazil's economy had been deeply affected by the Stock Market Crash of 1929. Brazil, which had previously relied on the exportation of agricultural commodities, especially coffee, suffered a huge blow as prices of commodities felt to bottom and demand for its products decrease in the international market. As a result, terms of trade deteriorated and growing foreign debt threw Brazil into a recession that would shape new economic and political developments. In 1937, Getúlio Vargas, a populist and authoritarian figure, came to power in Brazil. Through a *coup d'etat*, he established the *Estado Novo* regime (1937-1945).

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[31] Fukuyama, Francis. "The End of History?" The National Interest, (Summer 1989).

Vargas centralized power that previously rested with the states and gradually adopted a nationalist approach as a model to economic development. Great progress toward industrialization was achieved during this period due to government's investment into the private sector and the external crisis. Brazil was forced to start producing consumer goods within its borders because it had lost its revenues from foreign trade and it was no longer able make the payments for foreign products. The initial attempts to implement Import Substitution Industrialization (ISI), which focused on the substitution of imported products by goods produced domestically, were made during this period. From this point forward, ISI would become the most widely used economic policy for at least half a century.

As the Allies fought the Axis powers, international trade especially of raw materials increased in the years of World War II. Brazilian exports increased by 572.7% between the period of 1931 and 1951, and foreign exchange reserves accumulated.[32] However, improvements in the economy were short-lived; overvalued exchange rates and high inflation soon led to a balance of payments deficit. In 1951, President Vargas, now elected through the popular vote, chose to implement tight

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[32] Instituto Brasileiro de Geografía e Estatística. *Estatística do Século XX*. Online, September 20, 2006. <www.ibge.gov.br>

foreign exchange controls and import quotas for certain categories of products. Nevertheless, his policies failed and Brazil experienced a steep fall in its exports - a 36.1% decline from 1954 to 1959.[33]

By 1964, when the military took over, Brazil had been transformed from an agricultural economy to an industrialized society. Nonetheless, the achievements of industrialization were not always clear as it presented mixed results. At specific periods, Brazil's economy experienced formidable growth rates, but it lagged the drive to sustain a continued upward trend. The military seized control of the political establishment by taking advantage of the volatile circumstances in which the economy was embroiled.[34]

Economically, the accomplishments of the military were disappointing. During the late 1960s and early 1970s, the world experienced a credit boom and Brazil promptly started to borrow money to continue its industrialization push. The influx of capital along with the enactment of non-tariff barriers, erected to shelter domestic industries from international competition, achieved successful results. In this short-lived period, Brazilian GDP grew so fast that some analysts named this time

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[33] Instituto Brasileiro de Geografía e Estatística. *Estatística do Século XX*. Online, September 20, 2006. <www.ibge.gov.br>

[34] Suzigan, W. and Szmrecsányi, T. (Eds). *História Econômica do Brasil Contemporâneo*. São Paulo, Brazil: Editora da Universidade de São Paulo, 2002.

span "the miracle years". In fact, from 1967 to 1972 the economy grew at a staggering rate of 11.4 % per year.[35] Nevertheless, this period of unprecedented growth would not last long. The oil crisis in 1973 and 1979 not only halted the growth of the economy but led to a major crisis. Due to rising interest rates and increasing oil bills, the Brazilian government lost the capability to service its debt. Moreover, international creditors were unwilling to continue loans since several developing countries declared insolvency. Once again, Brazil readopted the ISI policy with hopes to resume growth. However, this time instead of promoting growth, ISI created inefficient sectors in the economy as non-tariff barriers prevented competition. Furthermore, the tightening of international credit coupled with the low rate of domestic savings, pushed direct investment in the economy to exceptionally low levels. In addition, poorly devised monetary policy, which maintained the value of the national currency artificially high, led to a rapid escalation of inflation. In 1989, inflation reached a record of more than 1500%.[36] As stagflation took over the economy, the 1980's were dubbed "the

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[35] Instituto Brasileiro de Geografía e Estatística. *Estatística do Século XX*. Online, September 20, 2006. <www.ibge.gov.br>.

[36] Brum, Argemiro J. *Desenvolvimento Econômico Brasileiro*. Petropólis, Brazil: Editora Vozes, 1997.

lost decade".[37]

As the military government lost its grip over the economy, pressures to a return to democracy grew. Suzigan and Szmrecsányi state that the incompetence of the military regime to manage the Brazilian economy was the main reason behind the end of the military dictatorship and the return to democracy.[38] However, despite the hopes of many, the return to civilian rule alone would not be enough to solve the problems of the Brazilian economy. Indeed, a long period of trial and error would take place before the Brazilian economy would show any signs of improvement.

Initial Attempts to Reform: 1985 to 1993

Before the economy could finally be stabilized, Brazil embarked on a series of heterodox stabilization plans. Those plans were usually based on the creation of new currencies as well as on the application of selective price and wage controls. Despite their initial successes, all plans put into operation before 1993 failed in their objective of controlling inflation in the long run. Moreover, each failed plan laid the

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[37] Stagflation is the condition when the economy faces simultaneously a period of stagnant growth or even recession and rapid inflation.

[38] Suzigan, W. and Szmrecsányi, T. (Eds). *História Econômica do Brasil Contemporâneo.* São Paulo, Brazil: Editora da Universidade de São Paulo, 2002.

foundations of its successor.[39] For example, the Bresser plan of 1987, the Rice and Beans Plan of 1988, and the Summer Plan of 1989, all made use of selective price and wages freezes that were first introduced by the Cruzado plan in 1986.

José Sarney, the first civilian to assume the office of the President in more than thirty years, started to apply non-orthodox macroeconomic policies aimed at stabilizing the economy in conjunction with ISI program. In 1986, Sarney launched the Cruzado Plan. This plan created a new currency - the cruzado - and selectively froze prices and wages. In the first months after the implementation of the Cruzado Plan, the inflation rate felt and economic activity rose. Regrettably, this increased growth alongside price freezes placed additional strain on the government's economic policy. With a growing demand and increasing pressure on prices, the government was forced to defreeze prices. This in turn, led to new inflationary hikes and a fall in real income. Without its major instrument to check inflation, the Cruzado Plan collapsed so quickly that it could not even celebrate its first anniversary. By the conclusion of President Sarney's term and after several failing economic plans, Brazil abandoned its inward-looking policies, including ISI, and began to pursue more open and liberal

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[39] Ammann, Edmund. *Economic Policy and Performance in Brazil Since* 1985 in Kinzo, Maria D'Alva, and Dunkerley, James (Eds), Brazil Since 1985: Politics, Economy and Society. London, UK: Institute of Latin American Studies, University of London, 2003.

strategies to economic development.[40]

The election of Fernando Collor as President in 1989 marked the beginning of a completely different approach to the administration of the economy. From 1990 to 1992, President Collor pursued an ambitious reform plan that focused on trade liberalization, privatization, and market deregulation. Collor argued that protectionism led to inefficient industries as well as lack of innovation. To illustrate his point, when asked in an interview about the competitiveness of Brazilian automobile industries Collor stated that when compared to foreign vehicles, Brazilian cars were similar to horse carriages.[41] To force an increase in efficiency of Brazilian industries, a four-year program was devised; this program would reduce tariff levels and eliminate the majority of non-tariff barriers began. The Collor administration also initiated a major drive to privatize government enterprises. By the time of Collor's impeachment, most of the state-owned corporations in the steel and petrochemical sectors went private. Moreover, Collor developed the National State Divestment Program (Programa National de Divestimento) which served as a platform for future privatization in other sectors. Collor also commenced a market

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[40] Bulmer-Thomas, Victor (Ed). *Regional Integration in Latin America and the Caribbean: The Political Economy of Open regionalism*. London, UK: Institute of Latin American Studies, 2001.

[41] Interview with Fernando Collor de Mello. Revista Veja, (January 1989).

deregulation program in order to enhance productivity in domestic markets. Despite progress in promoting liberal measures, the Brazilian economy continued to perform below par due to political upheaval, including weak control over macroeconomic policy and Collor's removal from office.

With Collor's impeachment at the end of 1992, Vice-President Itamar Franco assumed the Presidency.[42] Although Franco was perceived to prefer a more eccentric approach to economic matters, he chose as his Finance Minister renowned sociologist Fernando Henrique Cardoso. With Franco's *carte blanche*, Cardoso assembled a team of distinguished economic experts focusing around Pedro Malan and Gustavo Franco, who would later become Finance Minister and Governor of the Central Bank respectively. Nevertheless, it was not until 1994 that inflation would fall bellow two digits and the economy would start growing again.

The Real Plan

By the end of 1993, Cardoso allied with his economic advisors devised what became known as the Real Plan. It entailed four major elements. First, a new currency, the *real*, was introduced. The *real* was pegged to dollar in order to make

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[42] President Collor was removed from his position, based on allegations of corruption. Along with associates, Collor was accused of diverting public resources to private accounts.

imports cheaper and facilitate foreign competition. This increase in competition moderated inflationary pressures. Second, government practiced a tight control of monetary policy. By controlling the money supply, the government could ensure the conversion of the *real* to the dollar. In addition, it could control supply-side inflationary pressures caused by monetary surplus in the economy. Third, Congress approved spending cuts of R$8.2 billion (equivalent to US$7.5 billion at the time) and additional federal tax increases in the order of 5 to 7%. Higher revenue and lower spending would assist the government in balancing its accounts as well as paying its debt. Fourth, the indexation system was abolished.[43] Because wages and prices could no longer be indexed to new levels of inflation, inflationary momentum was broken.[44]

With the implementation of these policies, GDP increased from 4.9% in 1993 to 5.9% in 1994. At the same time, inflation between 1994 and 1995 came down from 916.46% to 22.41%.[45] Different from its predecessor, the Real Plan proved to be

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[43] Amann, Edmund and Bauer, Werner. "The Illusion of Stability: The Brazilian Economy under Cardoso," World Development, Vol. 28, no.10.

[44] Due to years of persistent hyperinflation, Brazilian society became accustomed to price and wage hikes. In previous stabilization plans, it was noticed that prices continued to move up even though there was no economic reason for it to behave like this. Some academics, as well as Cardoso, argued that in those circumstances, inflation was prevalent only because society continued to expect inflation to push prices up. They called this phenomenon inflationary inertia.

[45] Gambiagi, Fabio et al. *A Economía Brasileira nos Anos 90*. Brasilia, Brazil: Banco Nacional de Desenvolvimento Econômico e Social, 1999.

capable of lowering inflation and simultaneously fostering growth. Moreover, with the election of Cardoso to the office of the Presidency at the end of 1994, the government sought to consolidate the achievements of the Real Plan and insulate Brazil from external crisis. To accomplish this goal, government authorities turned its attention to a policy of fiscal adjustment; however, fiscal deficits continued until 1998. Nonetheless, despite the effort to protect the plan and consolidate achievements, the foundation of the Real Plan soon would be under attack.

Between 1994 and 1998, Brazil passed through three major international financial crises. The crisis in Mexico came first and fears of other Latin American nations collapsing took over the world. In 1997, contagion hit Asia, and by 1998, Russia had spun out of control. With each of these crises, Brazil felt increased difficulty to keep the *real* pegged to the dollar. In order to maintain the conversion between the *real* and the dollar, the Central Bank was obligated to start selling it foreign reserves. This type of monetary control was not sustainable and authorities allowed the *real* to float within a predetermined range. If the exchange rate drifted away from its target band the Central Bank would intervene. Although this policy was effective in maintaining the price of real to an average US$0.92 during 1995, the strong real prevented the growth of exports and at the same time promoted a surge in imports.[46] As a result of a strong currency and skyrocketing demand for imported goods, Brazilian current accounts started to deteriorate quickly. With evaporating foreign reserves and a persistent fiscal deficit, the situation became critical by 1998. In this situation, Brazilian officials saw themselves compelled to approach the IMF for assistance. The IMF agreed to loan Brazil US$41.5 billion in order for the government to maintain liquidity. In accordance with IMF loan conditions, the Brazilian government established a primary surplus target of 4.25% of GDP for the non-financial public sector.[47] Nevertheless, investors incredulous of the sustainability of the *real*-dollar parity, continued to move capital away from the country. In 1999, the Central Bank reluctantly permitted the real to float freely against the dollar. By doing so, authorities eliminated a central element, if not the most important aspect, of the Real Plan. The consequences of a weaker currency; however, were more positive than they expected.

The last two years of President Cardoso's first tenure were quite slow regarding the advancement of reforms. Instead of paying close attention to his reform agenda, Cardoso spent

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[46] Gambiagi, Fabio et al. *A Economía Brasileira nos Anos 90*. Brasilia, Brazil: Banco Nacional de Desenvolvimento Econômico e Social, 1999.

[47] International Monetary Fund. *Brazil: Selected Issues and Statistical Appendix*. Online, October 11, 2006. <www.imf.org>

most of his efforts cajoling the Congress to amend the Constitution in order to allow him to run for reelection. Nevertheless, in his second term in office, Cardoso led a major push to reform public finances. Fiscal responsibility and social security were in his sight; reforming these areas would prove to be extremely difficult however. The Constitution of 1988, with its all encompassing and lengthy provisions, dictates the actions that the Federal Government must follow, without even a minor deviation, in several areas.

The Law of Fiscal Responsibility which was approved in 2000 was aimed at revising the fiscal responsibilities of the Federal Government to States and Municipalities. It ends the obligation of the Federal Government to transfer resources to state or municipal governments and sets stringent limits on the spending of federal, state, and municipal governments. Likewise, the Federal Government is prohibited from paying debts accumulated by the lower levels of government.[48] As complementary law, the Fiscal Crimes Act of 2000 establishes criminal prosecution and imprisonment for public official who do not comply with the Fiscal Responsibility Law. Those two pieces of legislation were responsible for a major shift in the fiscal behavior of public officials in state and municipal levels. Presently, state

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[48] Tesouro Nacional. *Lei de Responsabilidade Fiscal*. Online, November 17, 2006. <www.tesouro.fazenda.gov.br>

governments and municipalities are responsible for funding their own projects and are accountable for their fiscal decisions.

The social security system also entered the reform agenda as politicians tried to balance the budget. Since its inception in Brazil during the first Vargas administration, the social security system has been beleaguered with deficits. At first, the system was created to attain political objectives and the regulations administered by National Institute of Social Security (Instituto National de Segurança Social) reflect these concerns. Social security rules were not clear and disproportionally benefited public sector bureaucrats, which were the major supporters, along with the poor, of populist President Vargas. The Social Security reforms of 1998 and 1999 were proposed with the intention of limiting the scale of social security spending and improving the flows of contributions. These reforms sought to implement a minimum retirement age and a link between contributions and benefits. These new rules targeted public sector workers since they represent the bulk of beneficiaries but proportionally to benefits are the ones who contribute the least. Despite these reforms, in the year 2000 the INSS registered a deficit of more than R$10 billion (equivalent to US$5.6 billion at that time).[49] Moreover, it is

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[49] Banco Central do Brasil. *Boletim Mensal (Fevereiro 2001)*. Online, November 17, 2006. <www.bcb.gov.br>

also important to point out that the Brazilian government had already allocated to social security 31.4% of the 2000 budget or R$62.96 billion.[50]

The Real Plan and the Cardoso administration usually receive positive evaluations from analysts. These evaluations reflect the simple fact that the Real Plan achieved what several other economic packages could not do - it finally brought inflation under control. Moreover, the Cardoso government also sought to liberalize the economy by advocating and implementing fiscal austerity, market deregulation, privatization, and trade liberalization. Despite the lack of implementation of many proposed reforms during Cardoso's tenure, his administration is widely recognized as achieving great success in the area of macroeconomic stabilization. Nonetheless, in other areas, reviews are not so encouraging. Inequality in Brazil remains high. In spite of real per capita GDP resuming to grow due to the low inflation environment and the income of millions of Brazilian citizens rose above poverty level, social mobility continues to be extremely low.[51] In reality, changes in any measure of inequality are insignificant when comparing periods before and after the Real Plan. According to World Bank

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[50] Ministério do Planejamento, Orçamento e Gestão. Orçamento 2000. Online, July 03, 2007. <www.planejamento.gov.br>

[51] Weyland, Kurt. *The Politics of Market Reform in Fragile Democracies:* Argentina, Brazil, Peru, and Venezuela. Princeton, NJ: Princeton University Press, 2002.

reports, the Brazilian Gini Coefficient measured 0.60, one of the highest in the world.[52]

Challenges of Further Reform

The Brazilian Constitution is another roadblock that prevents further reforms. The sixth Federal Constitution of Brazil was enacted in 1988. After many years under Military rule the people and the political elites were demanding a credible institution of government. The Constitution was believed to be the instrument that would give balance to the government. It established Brazil as a Republic of 26 states and one Federal District. It expanded the powers of the National Congress, the legislative branch of Brazil, to balance the powers of the president. It gave more responsibility to the states regarding financial issues and autonomy over internal affairs. It ensured universal suffrage and equality for all citizens.

The new Constitution was an attempt to purge the ghosts of the Military dictatorship. The first chapter of the Constitution deals with the individual rights and liberties. However, freedom from persecution is not the only concern expressed in the Constitution. Social Integration and

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[52] The Gini Coefficient is a widely utilized measure of income inequality. A Gini Coefficient of zero reflects a highly egalitarian society in which all individuals receive equal incomes. A value of one represents a country in which one individual receive all the income while others have nothing.

eradication of poverty have their own articles.

In general, the Brazilian Constitution is a complex and long document. For example, the constitution separates the Government in three powers: Executive, Legislative, and Judiciary. In the chapter about the Legislative power, instead of briefly describing a bicameral National Congress with an upper, the Senado Federal, and a lower chamber, Câmara dos Deputados, the Constitution goes further and defines the rules for legislative commissions, reunions and so on. Issues such as those could be solved by the internal rules of each chamber; however, they all have been defined in the Constitution. The lack of flexibility leads to a problem in Brazil; the need to amend constantly the Constitution, but doing so is not always an easy task. Moreover, the Federal Constitution stipulates the proportion of the budget that is needed in the area of education, health, security, social security, retirement payments, payroll and other expenses. This sometimes generates problems for the government because it is limited in its ability to re-design the budget.

Political culture also prevents reforms from taking place in Brazil. The political culture of Brazil is tied to the events experienced by its people throughout its history. For example, a major trend that can be identified in Brazilian politics and that had been inherited from the economic relationships among the colonialists and the colonized, master and slaves, landlords and tenants, industrialists and workers was *Patrimonialismo*. *Patrimonialismo* was influenced by the social current of *Paternalismo*. In different times and places, *Patrimonialismo* took different shapes. In the Northeast of Brazil, it became the *Coronelismo*, in the interior, among the rural population, it took the name of *Clientelismo* and in the large and industrial cities, especially among the working class, it was called *Populismo*.

The origin of those currents has to do with the Portuguese colonization of Brazil, where the contradictions of Brazil first appeared. In summary, Portugal had an immense and rich Empire; however, it lacked the human resources necessary to manage its colonies. At the same time that the Colonial government was strong, it did not have enough people to control effectively its possessions. Therefore, blending the state and the civil society became necessary in order for the state to achieve its objectives. The government would distribute its properties in exchange for cooperation and loyalty. This is the key feature of *Patrimonialismo* and of many problems of modern Brazil. This tradition led people to perceive the use of the state's machine in order to secure personal gains as a common and almost acceptable event. Although such actions are considered serious crimes in Brazil, corruption is rampant. It is ingrained in all levels of government, from public servants at local utility companies to elected officials in Congress and judges and prosecutors in the judiciary system.

What Accounts for the Successes of the Real Plan?

Why did the *Real* Plan succeed where others failed? Why did the Real Plan accomplish so much in the area of economic stabilization, while falling short of benefiting the whole society equally? Some political scientists argue that for economic reforms to be successful the presence of certain conditions is necessary. According to John Williamson and Stephan Haggard, the conditions conducive to successful reforms go beyond a well-elaborated and comprehensive program, but they also include a crisis environment, external pressure and help, democracy, a honeymoon period, a visionary leader, and the use of the media.[53]

Hyperinflation and sluggish economic growth were responsible for the crisis environment in Brazil during the last decades of the twentieth century. The persistence of this crisis convinced society and its elites that not reforming had a much higher cost than adapting to a more liberalized environment. Depending on the magnitude of the crisis, society

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[53] Williamson, John and Haggard, Stephan. *The Political Conditions of Policy Reform* in Williamson, John (Ed). The Political Economy of Policy Reform. Washington, DC: Institute for International Economics, 1993.

may stop seeing economic reforms as a zero-sum game where some segments of the public may gain while others will lose. Instead of quarreling about the relative benefits and losses of reforms, Brazilians believed that the economic stabilization policy would generally improve social conditions. However, soon after the economy was stabilized and the economic crisis became something of the past, deep structural reforms faced roadblocks in winning approval.

The series of financial crises during the 1990s created enough pressure for Brazil to try to insulate its economy and pursue fiscal austerity measures. However, it was not able to do so by itself and it had to seek assistance from the IMF. The IMF agreed to provide enough resources for Brazil to solve its liquidity problem, but it also established certain economic targets to be met. Brazil also faced another challenge and therefore sought international assistance to solve it. Due to low rates of domestic savings, Brazil became dependent on direct foreign investment to continue its growth. To attract the attention of foreign investors, Brazilian authorities initiate a series of programs to make the business environment more transparent, eliminate red tape, and allow for easy flows of capital.

Although the authoritarian regime in Brazil could devise and implement new policies at will, the majority of its policies failed because the government had placed purely political objectives above economic matters. Moreover, the military lost its credibility to implement reforms since instead of policies being aimed at improving the economic conditions of individuals, economic reforms sought to strengthen the state. However, in a democracy this is more difficult to do since information flows more freely. Democracy brings credibility and legitimacy for the actions of the government. It also allows public participation in the process of reform. Furthermore, transparency and accountability make the need for reform much clearer to society. Foreign investors also feel more confident in investing in countries that are more transparent and business practices are less complex. Regardless of these benefits, some pundits deemed the democratic process as being too indecisive to be able to enact reforms efficiently. The process of implementing economic reforms under a democratic regime may look like a bumpy road where politician have to take several detours and negotiate with different groups safe passage. However, once this process is concluded reforms are by and large more easily accepted.

The Cardoso government benefited from a greater freedom of political maneuver than its predecessors. Citizens were marveled with the achievements of Fernando Henrique Cardoso during his time as Finance Minister, but they were also full of hope vis-à-vis what his newly elected government may achieve. "Incoming democratic governments," Williamson and Haggard wrote, "typically enjoy a period when they can trade short-term economic losses against various political gains".[54] This phase in which society seems more flexible to support the policies of newly elected governments was named the honeymoon period. Moreover, government officials can blame the legacy of the past administration for any problematic decisions they may take. The Cardoso administration utilized this honeymoon to its advantage; it pressed Congress to approve measures that would solidify the initial achievements of the *Real* Plan and protect the economy from external shocks.

President Cardoso brought to power his strong academic credentials and assembled a team of economic experts that shared his view of the future of the Brazilian economy. During the whole process of implementation, Cardoso used the media, especially television networks, to broadcast and explain to the population the objectives of the *Real* Plan, the functioning of the economic package, and possible consequences. Different from Collor, Cardoso never tried to surprise the Brazilian society with drastic and sometimes illegal measures such as the freezing of bank accounts in an attempt to take the currency, then the

[54] Williamson, John and Haggard, Stephan. *The Political Conditions of Policy Reform* in Williamson, John (Ed). The Political Economy of Policy Reform. Washington, DC: Institute for International Economics, 1993.

cruzado novo, out of circulation.

Luiz Carlos Bresser Pereira, Finance Minister during Sarney's tenure, stated that in addition to the conditions put forward by Williamson and Haggard, the efficiency of economic policies and political support that they elicit from the public and the political elites are necessary to successful implementation of economic reforms.[55] Furthermore, Bresser Pereira defines efficiency of reforms as having a low transitional cost and being politically feasible. The cost that society will pay to employ reforms has to be smaller than what it will gain.

Conclusions

Will the Brazilian state as well as other nations collapse because of the expansion of globalization? The answer is simple - NO. Nation-states will maintain power in the future to come; they will remain the main actors in the international scenario. States have the power to determine whether, how and when to engage in interdependent relations. Although trade and communication across borders is growing, globalization has not gone as far as to force states to surrender their sovereignty to supranational governments. Domestically, states can shape the

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[55] Bresser Pereira, Luiz Carlos. *Brazil*, in Williamson, John (Ed), The Political Economy of Policy Reform. Washington, DC: Institute for International Economics, 1993.

relationship between politics and economics. They have the ability to choose which approach to the economy society should follow. Furthermore, they can make use of both hard and soft power. States have the ability to coerce others to pursue congruent objectives to what they perceive to be in the national interest. They can make legitimate use of violence or reward certain types of behavior in order to force society to follow the governments' lead. States also have the ability to persuade others that the governments' goals reflect what is best for the public. Thus, because the state can make use of both types of power, other elements of society such as corporations will never be able to exert the same level of power as states.

Neoliberal market reforms in Brazil are a result of the historical development of economic conditions. They took place as a reaction to the deep crisis society was facing in the late 1980s and early 1990s. Moreover, certain circumstances during Franco's and Cardoso's presidencies ensured the successful implementation of these reforms.

However, the future of neoliberal reforms in Brazil is not exactly clear. It does seem clear that Brazil will not follow the path of Venezuela and return to a statist approach of development. Brazilian elites are committed to a balanced monetary and fiscal policy, trade liberalization and, to a certain extent, market deregulation. Nevertheless, when considering the depth of structural reforms, the future is more ambiguous. Attempting to reform social security in a manner that will solve the deficit problem is politically unfeasible. Bringing more transparency and accountability to the legislative process seems unlikely as many politicians oppose innovations in this area. Simplifying the tax code is also complicated as states fear they will lose their main source of revenues - the tax value added (Imposto sobre Circulação de Mercadorias e Prestação de Serviços or ICMS). But, a new focus is emerging. Newly reelected President da Silva is committed to the eradication of poverty and his programs, especially Zero Hunger, have achieved some progress in the reduction of inequality.

As some of the conditions conducive to success no longer exist, the pace of reforms may slow down. Crisis seems to be long gone. The honeymoon period looks more like a divorce hearing with the government facing constant accusations of corruption. The media has its own agenda and pursues it aggressively. However, Brazil is still making progress, albeit slow. Its focus has shifted from market deregulation to income redistribution. Perhaps in a more equal and just society, where all can gain from the reforms, the drive to implement innovative economic reforms will return.

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